

**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

Producers 88 (4-89) — Paid-Up  
With 640 Acres Pooling Provision

## **PAID-UP OIL AND GAS LEASE (No Surface Use)**

THIS LEASE AGREEMENT is made this 3 day of June, 2010, by and between Larry B. McKenzie, Jr. A Single Man whose address is, 708 Portofino Dr. Arlington, TX 76012 as Lessor, and AXIA LAND SERVICES, L.L.C., 801 Cherry Street, Suite 3850, Unit 39, Fort Worth, Texas 76102, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

0.3545 acres, more or less, out of the J.J. Goodwin Survey, A- 637, Tarrant County, Texas and being Lot 18, Block 3-R, Interlochen Estates, Sixth Section Addition, according to the plat recorded at Volume 388-111, Page 67 of the Plat Records of Tarrant County, Texas and being more particularly described in that certain Warranty Deed With Vendor's Lien dated 29<sup>th</sup> day of July, 2003 from Robert Frappeir to Larry B. McKenzie, Jr. A Single Man as recorded at Instrument Number D203280986, Official Public Records, Tarrant County, Texas.

in the County of Tarrant, State of TEXAS, containing 0.3545 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), **for the sole purpose of exploring, drilling, and producing oil and gas, and to produce, save and transport oil and gas and other products manufactured from oil and gas produced from the Land, but only as from the depth of 1,000 feet below the surface down to 100 feet below the base of the Barnett Shale formation or the stratigraphic equivalent thereof. This Lease covers only oil and gas. The term "oil and gas" means petroleum, natural gas, and other liquid and gaseous hydrocarbons produced through a well bore. All other substances and minerals (including lignite, coal, sulfur, other like minerals, geothermal, potable water, sand, gravel, uranium, fissionable materials or any hard minerals or substances of any type) are excepted from this Lease and reserved to Lessor.** In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of one (1) year from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be **twenty-five percent (25%)** of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be **twenty-five percent (25%)** of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; (c) **royalty payments will commence no later than 120 days after completion of an oil well or 120 days after pipeline connection with a gas well. Subsequent payments will occur on the last day of the second month after the month of production and** (d) if at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of either producing oil or gas or other substances covered hereby in paying quantities or such wells are waiting on hydraulic fracture stimulation, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of **Fifty** dollars per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production.

4. All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit in at Lessor's address above or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the US Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

5. Except as provided for in Paragraph 3. above, if Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Lessee shall have the right but not the obligation to pool **no less than 100%** of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means a well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more

persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

9. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease **but must do so in full and with regard to any depths or zones, all easements, roads, streets, highways, rights-of-way, bodies of water, small strips that are contiguous or adjacent to the lands leased and drilled wellbores in lands leased; the Lease cannot be released as long as any mineral extraction, related to Lessor's interests, is ongoing.**

10. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized herewith, in primary and/or enhanced recovery, **Lessee will obtain prior written consent from Lessor for any ingress and egress on the leased premises.** Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above. No well shall be located less than **1500 feet** from any house or barn now on the leased premises or other lands used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

11. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

12. In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

13. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default, within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

14. For the same consideration recited above, Lessor hereby grants, assigns and conveys unto Lessee, its successors and assigns, a perpetual subsurface well bore easement under and through the leased premises for the placement of well bores (along routes selected by Lessee) from oil or gas wells the surface locations of which are situated on other tracts of land and which are not intended to develop the leased premises or lands pooled therewith and from which Lessor shall have no right to royalty or other benefit.

15. **Lessor makes no warranty of any kind, either express or implied, with respect to title to the Land or the minerals subject to this Lease. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land and the minerals subject to this Lease, and Lessee assumes all risk of title failures, and in connection therewith Lessee shall have no recourse against Lessor, including no right to a refund of the bonus and royalties paid for or under this Lease. Further, in the event Lessor does not own all of the minerals subject to this Lease, Lessee agrees that it will not conduct operations on the surface of the Land. This provision shall survive termination of the Lease.**

16. Notwithstanding anything contained to the contrary in this lease, Lessee shall not have any rights to use the surface of the leased premises for drilling or other operations. Lessee's rights are limited to crossing under the Leased Premises with a subsurface horizontal or directional wellbore, to explore for and develop oil and gas under the Leased Premises. Operations must not interfere with the surface in any way, or with subsurface support of any structures on the Leased Premises. The bore of a well drilled for oil and gas must be at least 1,000 feet below the surface. Lessee will not bore a well drilling for oil and gas, across Lessor's property until 100% of Lessor's land has been included in pooling unit.

17. This lease may be executed in counterparts, each of which is deemed an original and all of which only constitute one original.

18. If Lessee, or any of Lessee's successors or assigns, shall file for relief at any time under Chapter 7 of the United States bankruptcy statutes, then such filing shall result in the automatic, ipso facto termination of this Lease, effective one hundred twenty (120) days before the date of such filing.

19. **LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, EMPLOYEES, TRUSTEES, VOLUNTEERS, AGENTS, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE, INCLUDING WITHOUT LIMITATION THOSE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, WHETHER THE CLAIMS ARE BROUGHT OR PURSUED AS CLAIMS OF NEGLIGENCE, BREACH OF CONTRACT, NUISANCE, TORT, STRICT LIABILITY, OR OTHERWISE, AND INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RELATED TO LESSEE'S ACTIVITIES AND OPERATIONS ON THE LAND, OR CLAIMS BROUGHT OR ASSERTED BY PERSONS OR ENTITIES IN CONNECTION WITH LESSEE'S OPERATIONS AND ACTIVITIES, OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND, OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. ADDITIONALLY, UPON RECEIVING ANY NOTICE REGARDING ANY ENVIRONMENTAL, POLLUTION OR CONTAMINATION PROBLEM OR VIOLATION OF ANY LAW, RULE OR REGULATION, LESSEE WILL FORWARD A COPY OF SAME TO LESSOR BY CERTIFIED MAIL WITHIN THIRTY (30) DAYS. AS USED IN THIS PARAGRAPH, THE TERM "LAND" INCLUDES THE LAND COVERED BY THIS LEASE OR ANY LANDS POOLED THEREWITH. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.**

DISCLAIMER OF REPRESENTATIONS: Lessor acknowledges that oil and gas lease payments, in the form of rental, bonus and royalty, are market sensitive and may vary depending on multiple factors and that this Lease is the product of good faith negotiations. Lessor understands that these lease payments and terms are final and that Lessor entered into this lease without duress or undue influence. Lessor recognizes that lease values could go up or down depending on market conditions. Lessor acknowledges that no representations or assurances were made in the negotiation of this lease that Lessor would get the highest price or different terms depending on future market conditions. Neither party to this lease will seek to alter the terms of this transaction based upon any differing terms which Lessee has or may negotiate with any other lessors/oil and gas owners.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSORS:

Larry B. McKenzie Jr.

#### ACKNOWLEDGMENT

STATE OF TEXAS

COUNTY OF Tarrant

This instrument was acknowledged before me on the 6th day of June, 2010, by Larry B. McKenzie Jr.

ENG III

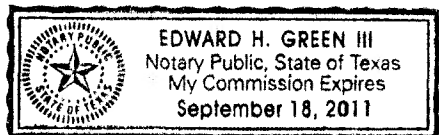
Edward H. Green III

Notary Public, State of Texas

Notary's name (printed):

Notary's commission expires:

Edward H. Green, III  
September 18, 2011



#### RECORDING INFORMATION

STATE OF TEXAS

County of \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, at \_\_\_\_\_ o'clock \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_, Page \_\_\_\_\_, of the \_\_\_\_\_ records of this office.

By \_\_\_\_\_ Clerk (or Deputy)

ADDENDUM

ATTACHED HERETO and made a part hereof to that certain Oil and Gas Lease dated 3rd day of June, 2010, by Larry B. McKenzie, Jr. A Single Man whose address is, 708 Portofino Dr. Arlington, TX 76012, Lessor, and AXIA LAND SERVICES L.L.C., 801 Cherry Street, Suite 3850, Unit 39, Fort Worth, Texas 76102, as "Lessee."

## ADDITIONAL PROVISIONS:

No-Deduct Royalty

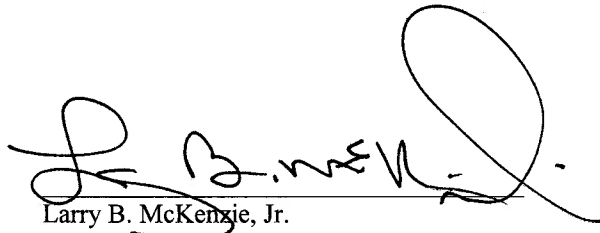
(a) It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the credit or benefit of Lessor under this Lease or by state law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and marketing the oil, gas and other products to be produced under the Lease; however, in the event Lessee determines in good faith that it can obtain a higher price at a market located outside of the local market, and Lessee incurs costs charged by an unaffiliated interstate or intrastate gas pipeline in order to enhance the value of the oil, gas or other products, Lessor's pro rata share of such costs may be deducted from Lessor's share of production. In no event shall Lessor ever receive a price that is less than the price to be received by Lessee. Lessee agrees to provide and make available to Lessor upon written request Lessee's records maintained or utilized in connection with any efforts to enhance the value of the oil, gas or other products to be produced pursuant to and in connection with this Lease together with any costs paid or proceeds received by Lessee hereunder.

Choice of Law

(a) This agreement in all matter and issues collateral thereto shall be governed by laws of Texas applicable to contracts entered into and performed entirely within the State of Texas, with respect to the determination of any claim, dispute or disagreement, which may arise out of the interpretation, performance or breach of this agreement, and will be subject to enforcement and interpretation solely in the appropriate courts of Texas.

Assignment

(a) This lease agreement shall be assigned from Axia Land Services, L.L.C. to Chesapeake Exploration, L.L.C.



Larry B. McKenzie, Jr.

RETURN TO:  
Axia Land Services, LLC  
500 E. Border Street, Suite 640  
Arlington, Texas 76010

SUZANNE HENDERSON

COUNTY CLERK



100 West Weatherford Fort Worth, TX 76196-0401

PHONE (817) 884-1195

AXIA LAND SRVS LLC  
500 E BORDER STREET 640  
ARLINGTON, TX 76010

Submitter: AXIA LAND SERVICES, LLC

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 6/10/2010 2:03 PM

Instrument #: D210139399

LSE

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PGS

\$24.00

By: \_\_\_\_\_

*Suzanne Henderson*

D210139399

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE OF THE DESCRIBED REAL PROPERTY  
BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

Prepared by: DBWARD